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Farm diversification program could suffer

'Phase II' money transfer is in budget

03/13/05

By [James Mayse](#)
Messenger-Inquirer

Kentucky farmers who were expecting but did not receive "Phase II" payments in 2004 will get their checks after all, but from state funds.

The budget legislators approved Tuesday includes a provision to transfer \$27 million from the state Agricultural Diversification Fund to compensate farmers for lost Phase II payments, which were awarded to farmers to compensate them for declining tobacco income. Under the budget, the remainder of the Phase II payments will come from \$87 million in borrowed money.

But the use of ag diversification dollars will have the obvious result of cutting the amount of money the state can allocate to agribusiness and new farm enterprises. With limited dollars, the state agricultural development board will have to make tough decisions on what projects are financed.

"(With) future applications from anyone, the amount of available funding is going to affect how we're going to approve those," said Keith Rogers, executive director of the Governor's Office of Agricultural Policy. Some projects will be worthy of funding, Rogers said, but may go unfunded because of limited diversification dollars.

Both the Agricultural Diversification Fund and Phase II payments originally came from tobacco companies, which agreed to pay states to settle lawsuits against cigarette makers. Kentucky used much of its settlement money to set up the diversification fund, which was created to help tobacco farmers start new farm ventures and become

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less dependent on tobacco income.

When Congress passed the long-awaited tobacco quota buyout plan last fall, cigarette companies immediately claimed the buyout absolved them from making their 2004 Phase II payments to farmers.

The Agricultural Diversification Fund is divided into state and county portions. Only the state portion will be used to fund the Phase II payout. Already, the state funds are used to finance a great deal more than farm diversification.

The new budget allocates \$5.3 million from state funds in fiscal year 2006 for new water and sewer projects, and appropriates \$1 million in 2006 for bonuses for University of Kentucky Cooperative Extension Service agents. In fiscal year 2005, \$9 million in state ag funds are allocated to the Environmental Stewardship Program. State ag funds are also used to pay \$6 million in annual debt service on infrastructure projects from previous years.

State diversification funds have been used to finance or enhance multiple farm projects, such as Lover's Leap Winery in Anderson County, Gone Fishin' Catfish Farms in Butler County and the Hopkinsville Elevator Co., an ethanol plant that is expected to have an economic impact on 33 counties. State funds have also been used to finance the West Kentucky Growers Cooperative, a fruit and vegetable production and marketing cooperative that has members in seven surrounding counties.

Alan Taylor, a member of the West Kentucky cooperative board, said the cooperative would not exist without state ag development dollars.

"The moneys the Ag Development Board provided for the capital purchase of the facilities ... there's no way the co-op could have existed without it," Taylor said. This year, the cooperative received additional state funds to hire a full-time production manager and received an operating loan from state ag dollars.

If the cooperative were to need a loan in the future -- and if state ag dollars were not available -- the prospect of getting a commercial loan would be, "iffy," Taylor said.

Between 2001 and 2005, state ag funds have been used to finance diversification projects in 39 Kentucky counties.

"Over the four years, we've averaged \$15.4 million (annually) on state projects," said Joel Neaveill, deputy director of the agricultural policy office. State funds have also been allocated to the Kentucky Beef Network to hire cattle experts to work to improve state herds.

"Every time I go to a beef meeting and hear someone talking from out of state, they're envious," said Kara Keeton, a project analyst with the agricultural policy office. "We're recognized on the national level for the work we're doing. That's something we haven't seen in the past."

Rogers said he is aware of farmers who have suffered an unexpected financial hardship because of the lost 2004 Phase II payment. "Farmers were anticipating those payments to make mortgage payments," Rogers said. " ... There are a lot of producers this has seriously affected."

About 163,000 Kentucky residents receive Phase II payments. Of that number, 87,000 receive less than \$250, while 127 residents receive more than \$25,000 and 19 residents receive \$50,000.

Wayne Mattingly, vice president and agricultural loan officer for Independence Bank, agreed some farmers are hurting from losing the payments, but said he did not know of any farmers losing their farms because they did not receive Phase II checks in December.

"It has made (some farmers) go out and borrow money sooner than they would have, or not pay off debt" as soon as they had planned, Mattingly said.

Rogers said financial institutions that deal with farm loans have been willing to work with farmers who have been hurt by lost Phase II payments.

"To date, we have not found one situation of a foreclosure ... due to Phase II payments," Rogers said.

Rogers said, after the transfer to Phase II, the state fund will have about \$18.2 from now until the end of fiscal year 2006 available for farm diversification.

Projects that have already been allocated funds will not be affected by the reduction in state ag dollars, Rogers said.

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